



## Accountable Expense Reimbursement Plans

Accountable reimbursement plans are a means by which an organization can legally reimburse employees for business related expenses while eliminating any IRS reporting or employee taxation.

Per IRS guidelines, an accountable reimbursement plan must meet the following requirements: (1) there must be a business purpose for the expenses – that is, you must have incurred or paid deductible expenses while performing services as an employee of your employer, (2) proper substantiation of expenses to the employer within a reasonable period of time, and (3) the return of any unused, excess reimbursements within a reasonable period of time. If these guidelines are not strictly followed, reimbursements are to be counted as income to the reimbursed person.

### IRS Rules for an Accountable Reimbursement Plan

1. The church must budget funds for the accountable reimbursement plan. The budgeted funds cannot come from or be included in an employee's salary package. Funds should be budgeted just like any other church expense, such as utilities or maintenance expenditures.
2. The plan should be written and must be church-approved, but the plan does not have to be voted on by the church at church conference. If the church's governance empowers the finance committee or executive staff to make the determination of budgeted funds for the accountable reimbursement plan, then this is acceptable to the IRS.
3. The accountable reimbursement plan is a "use it or lose it" process. If the employee does not use the entire budget line item designated for reimbursement, he cannot receive the overage.
4. The substantiation of expenses and the return of excess reimbursements must be handled within a reasonable time as defined below:
  - + An advance can be made within **30 days** of when an expense is paid or incurred.
  - + The employee must provide the church with a **receipt** and **written explanation** (see #6 below) within **60 days** of incurring the expense.
  - + Any excess amount is to be returned to the church **within 120 days** after the expense is paid or incurred.
5. Original receipts are required for all expenditures over \$75. If a receipt is not provided, the reimbursement becomes taxable income.
6. The receipt plus written explanation should document the amount, date, place (for transportation, travel, and entertainment expenses), business purpose and, for entertainment expenses, the business relationship of the person(s) entertained. For business mileage reimbursements, this means an itemized log that details the above for



each separate trip.

7. The committee or staff overseeing the plan has the right to determine if a receipt presented for reimbursement is an acceptable church related business expense for reimbursement.
8. The church should not report any expenses reimbursed properly under an accountable reimbursement plan as taxable income on the employee's W-2. However, all advances and/or reimbursements without timely or adequate documentation should be added to the employee's W-2 as wages in box 1. We recommend allowing this only on an infrequent basis as allowing for reimbursement outside of the plan requirements may cause all other reimbursements to be considered unaccountable by the IRS as well.

## What Can Be Reimbursed?

The church can agree to reimburse reasonable church-related business expenses such as the following:

- + **Conventions, conferences, seminars, and other workshop fees or costs.**  
If the continuing education event furthers the employee's learning for their current position and the educational event does not qualify the employee for a new position, then the church can reimburse the employee for associated costs.
- + **Church-related business travel.**  
The IRS allows the church to reimburse its employees the IRS standard mileage rate plus parking fees and tolls for business miles driven for church-related purposes. The IRS does not allow a church to reimburse for commuting miles from home to the church no matter how many times the employee goes back and forth each day. Also, the church can reimburse meals its staff incurs if the required travel takes the employee away from the church field during meal times. *Individual meals are heavily scrutinized by the IRS and should be infrequent in occurrence.*
- + **Costs associated with church-related business overnight trips.**  
The church can reimburse its employees for lodging, meals, and other costs associated with overnight church-related business travel.
- + **Subscriptions, books, tapes, CDs, DVDs, equipment, and other similar tools.**  
Sermon resources and other educational materials can be reimbursed by the church if the resource has a church-related business connection. Likewise, the church can pay for church-related business equipment like PDAs and computers. Any equipment purchased is the property of the church and should be retained by the church if the employee leaves or is terminated.
- + **Hospitality expenses required by the church to entertain others.** The church can reimburse its employee's expenses associated with providing a business meal for individuals like prospects or church members if the meal had a clearly identified church-related purpose.

